

CSL/2014-15/236
August 16, 2014

National Stock Exchange of India Limited
Exchange Plaza
Bandra Kurla Complex
Bandra (East)
Mumbai - 400 051

Dear Sir,

Sub: Intimation under Clause 36 of Listing Agreement

With reference to the above, please find enclosed CRISIL IER Independent Equity Research Detailed Report on CERA.

We hope you will find the same in order and bring the same to the notice of the members of Stock Exchange.

Thanking you,

Yours faithfully,
For Cera Sanitaryware Limited,



Narendra N. Patel
President & Company Secretary

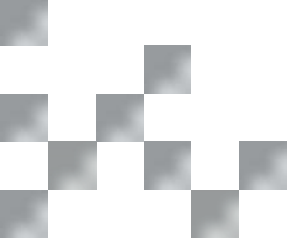
Encl: as above

Cera Sanitaryware Limited

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CRISIL IER

Independent Equity Research

Cera Sanitaryware Ltd

Detailed Report

Enhancing investment decisions



Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Last updated: May, 2013

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Cera Sanitaryware Ltd

Broader product portfolio and brand awareness to drive growth

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 3/5 (CMP is aligned)

Industry Building products

Cera Sanitaryware Ltd (Cera) sustained its growth trajectory in FY14 despite a challenging business environment; revenues increased 36% y-o-y. The faucet ware business turned profitable at the EBITDA level in H2FY14. Going forward, we expect Cera to maintain its growth momentum on the back of an established position in the sanitary ware industry, broader product portfolio, wide appeal of the CERA brand and expanding geographic footprint. We retain our fundamental grade of **4/5**. However, increasing competition across business segments is a challenge.

Sanitary ware to maintain momentum; faucet ware to fuel the growth engine

Boosted by entry into new markets and an established brand, Cera's sanitary ware business is expected to maintain its growth momentum and register two-year CAGR of 20% over FY14-16. However, the faucet ware segment, with a larger addressable market, is expected to drive Cera's future growth. With growth in brand awareness and widening of the product portfolio, Cera's faucet ware business is well poised to benefit from overall macroeconomic growth; we expect this segment to register 40% CAGR over FY14-16.

Growing brand awareness and expanding distribution network to provide impetus

Cera continues to focus on improving its brand awareness by sustained marketing efforts such as new promotional campaigns through different mediums and opening of display centers – CERA Style Galleries and CERA Style Studios. It is strengthening its distribution network in new states such as Tamil Nadu and Andhra Pradesh, and plans to enter the underpenetrated markets of West Bengal and the North-East. We expect these initiatives to help the company grow faster than the industry.

Intensifying competition across segments is a challenge

With foreign players entering the Indian building products industry, competition has increased significantly in recent times. In both sanitary ware and faucet ware markets, competition is likely to intensify with the established ceramic tile manufacturers planning to increase their presence, which may dampen Cera's growth prospects.

Revenues are expected to grow at a CAGR of 25%; valuation: CMP is aligned

Revenues are expected to increase at a CAGR of 25% over FY14-16E to ₹10.4 bn driven by sturdy growth in the faucet ware segment. EBITDA margin is expected to increase from 14.7% in FY14 to 15.3% in FY15. We continue to use the discounted cash flow (DCF) method to value Cera. We have raised our earnings estimates for FY15 and FY16 by 1% and 3%, respectively. We have changed our fair value estimate to ₹1,406 from ₹1,075. At the current market price of ₹1,543, our valuation grade is **3/5**.

KEY FORECAST

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Operating income	3,209	4,893	6,649	8,363	10,447
EBITDA	561	793	977	1,255	1,598
Adj net income	308	434	510	684	864
Adj EPS (₹)	24	34	40	54	68
EPS growth (%)	22	41	17	34	26
Dividend yield (%)	0.2	0.3	0.3	0.4	0.7
RoCE (%)	28.8	32.7	33.3	34.2	34.6
RoE (%)	24.5	27.3	25.3	26.8	26.9
PE (x)	63.5	45.0	38.3	28.5	22.6
P/BV (x)	14.0	10.9	8.7	6.8	5.5
EV/EBITDA (x)	35.1	25.0	20.1	15.9	12.4

NM: Not meaningful; CMP: Current market price

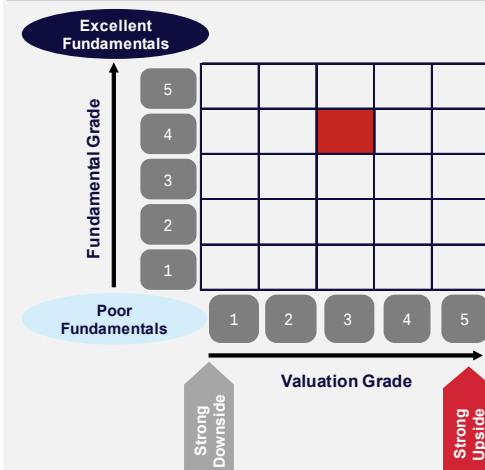
Source: Company, CRISIL Research estimates

August 13, 2014

Fair Value ₹1,406

CMP ₹1,543

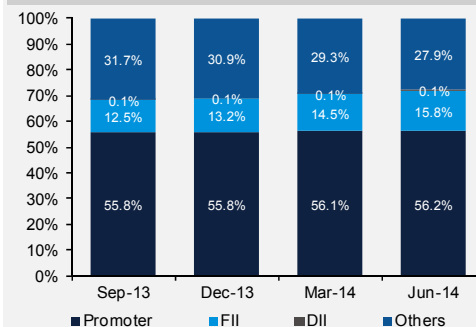
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	7740/25919
NSE/BSE ticker	CERA/CERASAN
Face value (₹ per share)	5
Shares outstanding (mn)	12.7
Market cap (₹ mn)/(US\$ mn)	19,531/319
Enterprise value (₹ mn)/(US\$ mn)	19,776/323
52-week range (₹)/(H/L)	1,575/420
Beta	0.6
Free float (%)	43.8%
Avg daily volumes (30-days)	15,264
Avg daily value (30-days) (₹ mn)	21.0

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Cera	29%	29%	106%	204%
CNX 500	2%	14%	30%	44%

ANALYTICAL CONTACT

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Table 1: Cera Sanitarware - Business environment

Product/segment	Sanitary ware	Faucet ware	Allied products, wellness and tiles
Revenue contribution (FY14)	56%	16%	27%
Revenue contribution (FY16E)	50%	19%	31%
Geographic presence	Domestic: 95% Exports: 5%	Domestic: 100%	Domestic: 100%
Market position	<ul style="list-style-type: none"> Third largest player in the organised sanitary ware market with a share of ~24%. Over the past few years, Cera's brand salience has been growing steadily in this space 	<ul style="list-style-type: none"> Relatively new entrant in the organised faucet ware market. Currently, the company's brand strength is weaker than that of Jaquar, which has ~70% share 	<ul style="list-style-type: none"> Wellness: Markets its products with "value for money" proposition; aimed at the price-sensitive consumers. Products are priced lower than that of premium brands such as Kohler, American Standard and others Ceramic tiles: A small player in a highly fragmented market
Growth drivers	<ul style="list-style-type: none"> Fresh demand from the real estate sector and growing replacement demand are expected to boost the industry. As per industry sources, India is likely to add over 100 mn houses during 2011-21 driven by the government's focus on affordable housing in tier-II and tier-III cities Over the past few years, Cera has been able to increase its brand awareness among customers through extensive advertising and promotional campaigns. The company is expected to continue to invest in brand-building activities going forward. It is strengthening its position in the northern and western states, and it plans to enter the underpenetrated eastern and north-eastern states With strong position in the sanitary ware market, Cera is well poised to benefit from industry growth. Although it is a relatively new entrant in the faucet ware segment, it is likely to be a beneficiary of growth in the industry owing to expansion in its product portfolio and growing awareness among the Indian middle class 		
Sales growth (FY12-14 – two-year CAGR)	32%	58%	72%
Sales forecast (FY14-16E – two-year CAGR)	20%	40%	35%
Key competitors	<ul style="list-style-type: none"> Mass market: HSIL through Hindware and Raasi brands Mid: HSIL, Parryware Roca Premium/super premium: American Standard, Kohler, Duravit, Toto, Roca and Groher 	<ul style="list-style-type: none"> Jaquar and other sanitary ware players such as HSIL, Roca and Kohler Cera continues to face significant competition from the unorganised players in the low-end of the mass market 	<ul style="list-style-type: none"> Wellness products: HSIL and Parryware Roca for the mid-segment; Kohler, Duravit, HSIL, Roca and Toto for the premium segment Tiles: Established players such as Kajaria, Somany, H&R Johnson (under Prism Cement), Asian Granito, Nitco Tiles, as well as many unorganised players
Key risks	<ul style="list-style-type: none"> A prolonged slowdown in the real estate sector in India may hamper the growth prospects of the sanitary ware and faucet ware companies Inability to pass on the increase in power and fuel costs, including gas, may suppress Cera's operating margins 		

Source: Company, CRISIL Research

Grading Rationale

Maintained sturdy growth in FY14 despite industry headwinds

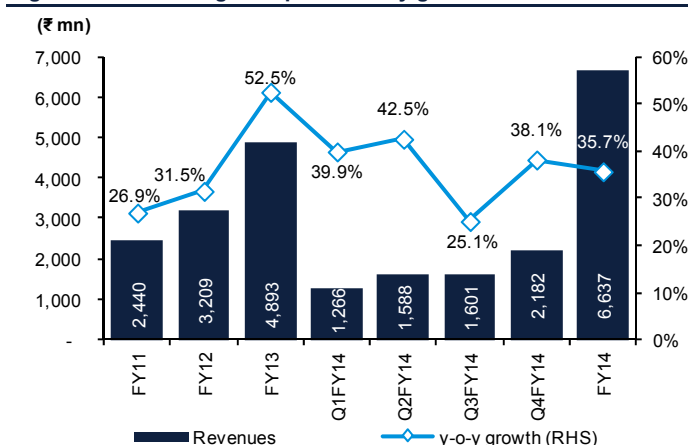
FY14 was another year of high growth for Cera. Its revenues grew 36% y-o-y, higher than its peer HSIL Ltd's 18% y-o-y growth in building products revenues. The faucet ware segment drove the top line with a y-o-y growth of 53%, followed by wellness products (32%), allied products (28%) and sanitary ware (22%). The ceramic tiles segment grew five times over FY13, albeit from a smaller base. The company's growth momentum continued in Q1FY15 with revenue growth of 28.2% y-o-y.

Last fiscal's revenue growth looks more impressive in the backdrop of a weak macroeconomic environment. The building products industry (sanitary ware, faucet ware and ceramic tiles) along with all other consumption-based industries were adversely impacted by the economic slowdown, stubborn retail inflation and high interest rates, which put a cap on consumer discretionary spending. Moreover, owing to excess inventory and moderation in demand, the supply of real estate projects across key cities declined ~25% last year, which also arrested demand for sanitary and faucet ware products.

Cera was able to overcome the headwinds on the back of 1) strong position in the mass market and the mid-market segments of the building products industry, which together constitute ~90% of the overall organised market, 2) focus on branding and promotional activities, 3) expansion of the product portfolio and 4) market share gain from the unorganised players. Gradual improvement in consumer discretionary spending and growth in affordable housing should keep Cera on the growth path in the near term. However, growth rates are likely to moderate from the current levels as penetration levels in sanitary ware and faucet ware industries are expected to stabilise going forward.

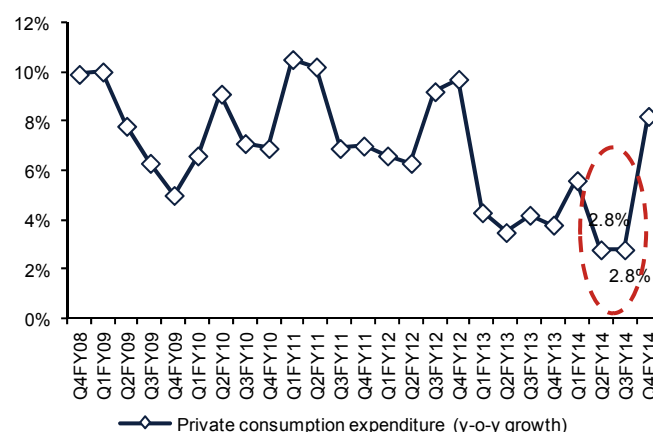
Cera's revenues grew 36% y-o-y in FY14 despite a challenging demand environment

Figure 1: Cera managed to post healthy growth in FY14...



Source: Company, CRISIL Research

Figure 2: ... despite a slowdown in consumer spending

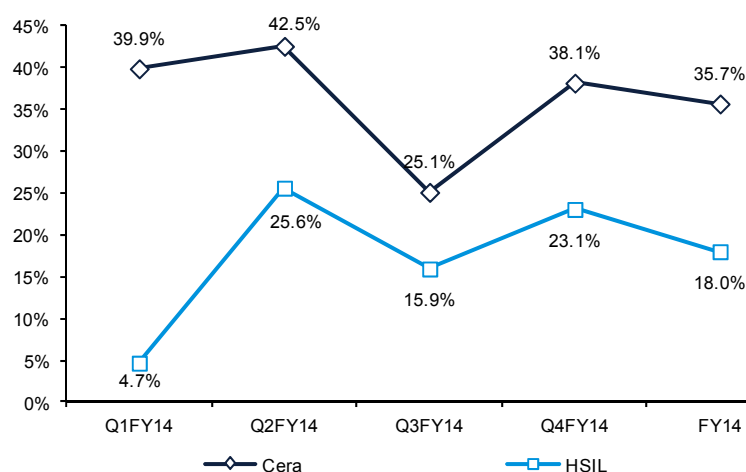


Source: Central Statistical Organisation, CRISIL Research

Strong market position + growing brand awareness + widening product portfolio = an attractive growth story

As mentioned, Cera's growth engine has been fuelled by its strong position in the mass and mid-market segments of the sanitary ware industry, wide brand appeal and a growing distribution network, enabling the company to become the third largest player in the organised sanitary ware market in India. We believe Cera's management is taking the right steps to reinforce these strengths and expect these to continue to benefit the company in the long run.

Figure 3: Cera's growth was higher than that of its major peer in FY14



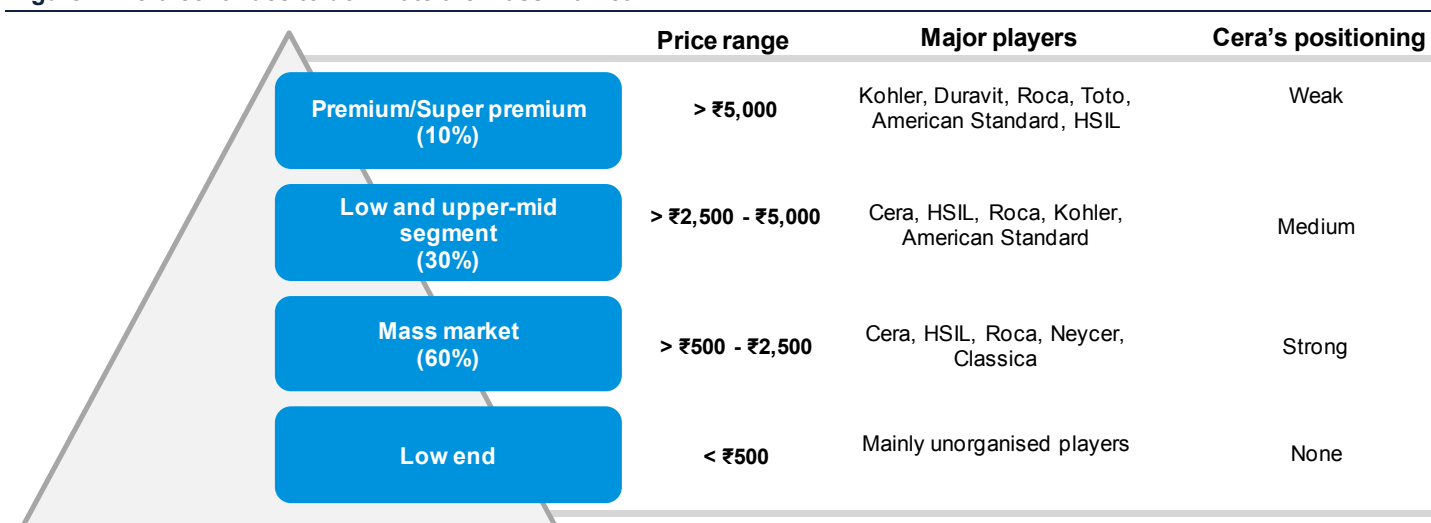
Source: Company, CRISIL Research

Maintains strong position in the mass market segment

Leveraging the wide appeal of its CERA brand, the company maintains a strong position in the mass market (~60% of the organised sanitary ware market) and mid-market (~30%) segments. The mass market is characterised by brand conscious but price sensitive customers. Cera's products are competitively priced compared with its major peers, which enables it to offer value-for-money products to the price sensitive consumers in the mass market. Moreover, most of the demand for the mass market segment comes from tier-I and tier-II cities where Cera has a strong presence. The competitive intensity in the mass-market segment is also lower as the large MNC brands such as Kohler, Duravit and Toto operate in the premium/super premium segments. Thus, the mass market is mostly dominated by domestic players such as HSIL, Cera and Parryware. Owing to these factors, we believe Cera continues to enjoy a strong position in the mass market segment. Although a recent entrant, Cera's brand equity in the faucet ware segment has also improved as evident in the strong growth recorded by the company in FY14.

The CERA brand continues to rule the mass market

Figure 4: Cera continues to dominate the mass market



Source: Industry, CRISIL Research

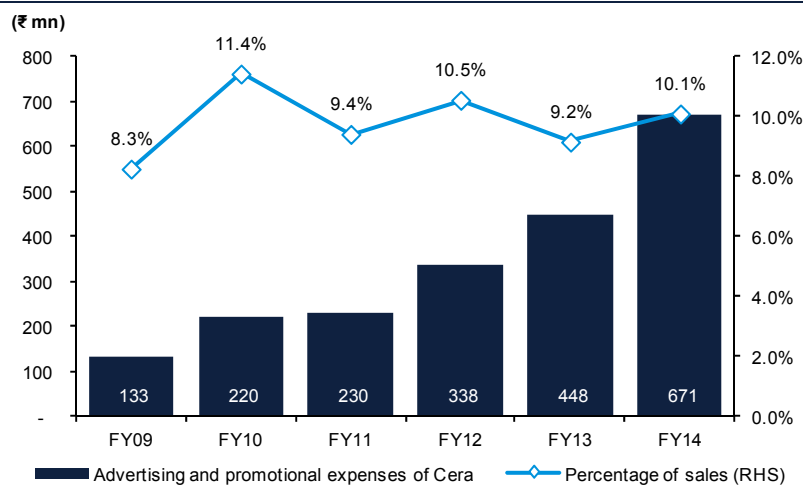
Promotional activities support growing brand awareness

Owing to consistent focus on branding and promotional activities, the visibility of the CERA brand has improved over the past few years:

- Cera has ramped up its promotional activities in recent times – it has roped in actress Sonam Kapoor as its new brand ambassador for two years. It has launched a new television commercial and advertising campaigns on print media, and has also co-sponsored popular TV shows.
- Additionally, the company is increasing the number of CERA Style Studios (company owned display centers) and CERA Galleries (shop-in-shop display with dealers) across the country. In FY14, Cera opened two style studios and 20 galleries. One more style studio in Kolkata is expected to start soon. These studios, where the company showcases its entire range of products, are largely targeted at developers, architects and interior designers. Cera plans to open more such display centers across the country.
- Cera's advertising and promotional expenses (A&P expenses) have grown at a five-year CAGR of 38.3% over FY09-14, which is significantly higher than its major competitor's. Its A&P expenses (advertising and publicity, brokerage, commission and sales discount) as a percentage of sales have been in the range of 8-11% over the past five years and are expected to remain at similar levels.

Cera's brand awareness has improved recently as a result of branding and promotional activities

Figure 5: Marketing spend has increased consistently in recent times



Source: Company, CRISIL Research

Emerging as a complete bathroom solutions provider by expanding the product basket

Leveraging its strong market position in the sanitary ware industry, Cera has also entered other segments of the building products industry such as faucets, wellness products and allied bath ware products in recent times. In the latter half of FY13, Cera started trading in tiles, a natural extension of its existing product portfolio. The company is emerging as a bathroom solutions provider and a one-stop shop for customers. Further, expanding the product portfolio should offer cross-selling opportunities for dealers, thereby increasing the attractiveness of Cera's products for its dealers. The expansion in the product line has diversified Cera's revenue mix; from 70% of overall revenues in FY11, the contribution of the sanitary ware segment reduced to 56% in FY14.

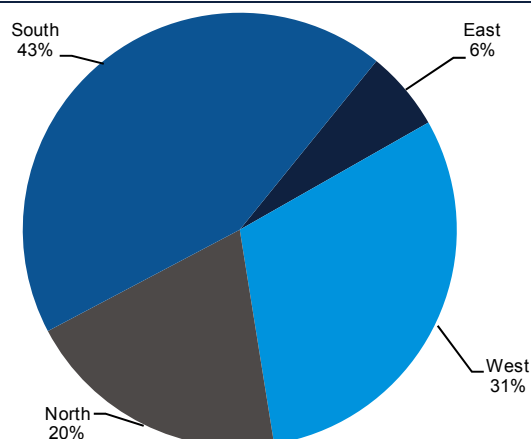
Strengthening distribution network to match the scale of competitors

Over FY12-14, Cera has strengthened its distribution network substantially from 500 distributors/5,000 retailers to 1,400 distributors/14,000 retailers. To supplement its distribution network, the company has established 21 major stock points, 10 zonal sales office and service offices across India. Backed by a wide distribution network, Cera has established a strong presence in southern (primarily Kerala) and western markets, and is gaining footprint in the eastern and northern markets. The aggressive expansion of the dealer/distributor bases has reduced the gap between the company's distribution network with that of its major competitors; however, it still lags the scale of market leaders HSIL and Jaquar.

With a growing product basket, Cera is gradually emerging as a one-stop shop for consumers

Cera has 1,400 dealers and 14,000 retailers across India

Figure 6: Cera's pan-India distribution network...



Source: Company, CRISIL Research

Table 2: ... is fast catching up with most of its competitors

Company	Dealers/distributors	Retail outlets
Cera	1,400	14,000
HSIL	>2,000	>15,000
Parryware Roca	2,000	14,000
Jaquar	>1,800	NA
Duravit	150	NA
Kohler	250	NA

Source: Industry, CRISIL Research

Sanitary ware – steady growth momentum

With a five-year CAGR of 30% in its sanitary ware segment, Cera has consistently outpaced the industry growth of 14-15% in recent times. It has increased its share in the organised sanitary ware market from 18% in FY09 to 23% now. In FY14, the segment recorded 22% y-o-y growth, while volume growth moderated to 9% due to a challenging business environment. Going forward, we expect the sanitary ware segment to continue to post steady growth - revenues are forecast to grow at a two-year CAGR of 20% over FY14-16.

Penetration of organised sanitary ware players likely to stabilise in the medium term...

Along with other organised sanitary ware players, Cera has also been a beneficiary of the consumer shift from the unorganised to the organised market. The share of the organised players has increased from 50% a few years back to 65% at present driven by higher disposable income, changing consumer preference and growing affinity for branded products. This has been a key growth driver for the sanitary ware industry over the past one decade. Though we expect the trend to continue, the penetration level of the organised players is likely to stabilise in the medium term, translating into moderate industry growth.

... but growing replacement demand to provide fillip to the industry

In India, demand from new construction constitutes 93% of the sanitary ware demand while replacement demand constitutes only 7% vs 80% in developed economies. Considering that the average life span of a sanitary ware product is 25-30 years, and the Indian sanitary ware industry has witnessed a boom in the past 10-15 years, we expect huge replacement demand in the coming years. This should open up new growth avenues for sanitary ware players.

The sanitary ware segment's revenues increased 22% y-o-y in FY14 driven by 9-10% volume and 12% realisation growth

Currently, replacement demand in India is 7% vs 80% in the developed economies

Cera is expected to continue to grow faster than the industry

While the sanitary ware industry is pegged to grow at <15%, Cera is expected to post higher-than-industry growth owing to the following factors:

- **Expansion to under-penetrated markets** – Cera has a strong footprint in the southern (particularly Kerala) and western states (75% of total revenues). Over the past few years, Cera has expanded to new southern states such as Andhra Pradesh, Karnataka and Tamil Nadu; and northern states such as Punjab, UP and Haryana. The expansion has enabled the company to widen its geographic presence and its customer base, which has been one of the key elements of growth. In addition to strengthening its presence in the new markets, Cera plans to enter the under-penetrated eastern states of West Bengal, Bihar and the North-East.
- **Growth in affordable housing** – Cera is expected to benefit from growth in affordable housing in non-metro cities. In its quest for “housing for all” by 2022, the new government has allocated ₹40 bn for low-cost housing in the FY14-15 budget along with other sops. The increase in the government’s focus on affordable housing should boost real estate supply in non-metro cities. With a strong presence in tier-I and tier-II cities, Cera is expected to benefit from this.
- **Adding premium products to its portfolio** – Apart from strengthening its presence in the mass and mid-market segments segments, Cera is making its presence felt in the premium segment with the introduction of luxury sanitary ware products. Going forward, it plans to keep pushing for higher market share in this space by launching newer premium products and supporting it by aggressive marketing campaigns.
- **Market share gain from competitors** – Cera has successfully gained market share in the mass and mid-market segments from its competitors (particular Roca) in the recent past owing mainly to 1) increasing awareness of the CERA brand, 2) launch of new and innovative products supported by good product designing capabilities and 3) shift of distributors to Cera from other players owing to better trade offers and payment terms.

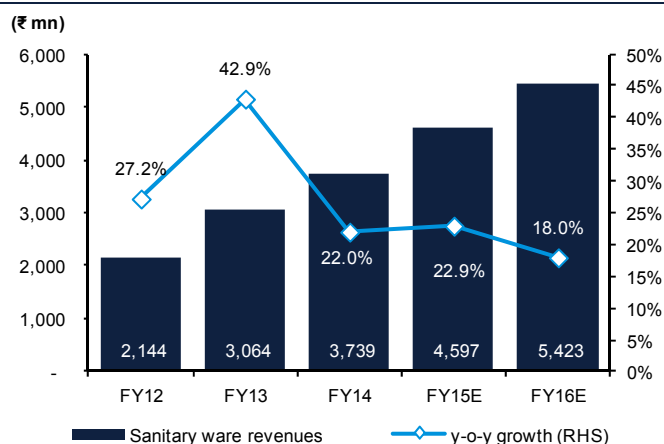
Capacity running at peak utilisation; outsourcing to continue to support near-term growth

In FY13, Cera expanded its sanitary ware capacity from 2 mn pieces/annum to 2.7 mn pieces/annum via the brownfield route. The new capacity reached peak utilisation in FY14 (102%). Cera plans to increase the capacity incrementally to 3 mn pieces by the end of the current fiscal year (with an estimated capex outflow of ~₹200 mn), but it is unlikely to be sufficient to support the expansion in the sanitary ware segment. With an installed capacity of 2.7 mn pieces per annum running at peak utilisation, we expect outsourcing to continue to support the sanitary ware segment’s growth. The company outsources some of its low-end products aimed at the mass market to the domestic unorganised players, while manufactures the more profitable products in-house. Additionally, it also imports premium-end products from China and Turkey. This outsourcing strategy has enabled the company to manage growth with low capital requirement and is one of the primary reasons for its industry-leading RoCE profile. However, we believe in the long run the company has to expand capacity either through the greenfield route (which may impact its return ratios) or by entering into a joint venture (JV) with an unorganised sanitary ware player.

Cera is expected to grow at 20% compared with 14-15% industry growth over the next couple of years

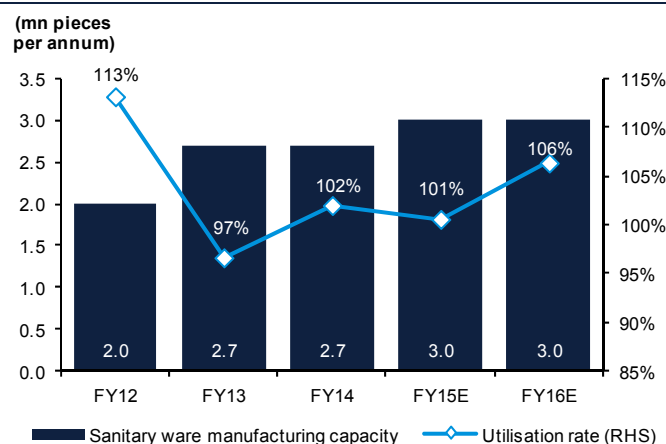
Expanding manufacturing capacity to 3 mn pieces/annum from 2.7 mn pieces in FY15

Figure 7: Growth in the sanitary ware segment expected to be steady



Source: Company, CRISIL Research

Figure 8: Outsourcing to support growth as capacity is running at peak utilisation



Source: Company, CRISIL Research

Faucet ware – turned profitable in FY14; to fuel growth engine going forward

In FY14, the faucet ware segment grew 53% y-o-y to ₹1,051 mn led by volume growth of 50%. The segment was making operating losses prior to FY14 but turned profitable in the second half of FY14 as higher revenues led to better absorption of fixed costs and production efficiency also improved with lowering of rejection rates. As per the management, faucets currently make 12% EBITDA margin. Going forward, we expect this segment to grow faster than sanitary ware and power Cera's growth engine – revenues are estimated to grow at a two-year CAGR of 40.5%.

Industry offers attractive growth potential

The faucet ware industry offers better growth prospects owing to the following factors:

- **Large, scalable growth opportunity** – The faucet ware segment offers a larger, scalable growth opportunity than sanitary ware as 1) consumption of faucets in a bathroom is 2-3x that of sanitary ware products and, hence, it accounts for a larger share of a customer's spending for bathroom, and 2) faucets have a lower life span than sanitary ware translating into higher replacement demand. The faucet ware market is estimated at ₹48 bn vs the ₹26 bn sanitary ware market.
- **Shift from the unorganised to the organised sector** – The share of unorganised players in the faucet ware market is ~60%, higher than that of the sanitary ware and tiles markets. However, like other segments of the building products industry, this segment is also witnessing a shift from the unorganised to the organised sector owing to changing consumer lifestyle and preference for brands. With low penetration of branded products, the potential for organised players to grow in this market is substantial. The faucet ware market is estimated to grow 18-19%, higher than sanitary ware (14-15%) and tiles (11-12%) markets.

The faucet ware segment's revenues increased 53% y-o-y in FY14 driven by volume growth

The faucet ware industry is expected to grow 18-19% in the near term, higher than the sanitary ware and tiles segments

Cera is well poised to take advantage of industry growth

We expect Cera to be a key beneficiary of industry growth and grow at a healthy rate, although from a small base, owing to:

- **Introduction of new products** – In FY14, Cera launched a new range of faucet ware products to improve its position in the market. The products are competitively priced vis-à-vis Jaquar. It plans to continue expanding its portfolio of faucets in the future, which should give consumers a larger basket to choose from; thereby improving its brand equity.
- **Improved after-sales service** – In the recent past, Cera has strengthened its after-sales service team for the faucets segments and currently has 120 service staffs. The company follows a hub-and-spoke model for catering to the customers. Its service team is stationed at larger cities and caters to nearby towns and cities. The company provides customers with multiple options to log their problems – toll-free numbers, through website or via mail. The thrust to improve after-sales service, a key aspect in the faucet ware segment, should encourage brand loyalty for the company.
- **Growing brand awareness** – With sustained efforts by the management, we expect brand awareness for faucet ware to improve going forward. The company is trying to create brand awareness by showcasing its products more through CERA Style Studios and other promotional activities.

Ramping up faucet ware capacity to support growth

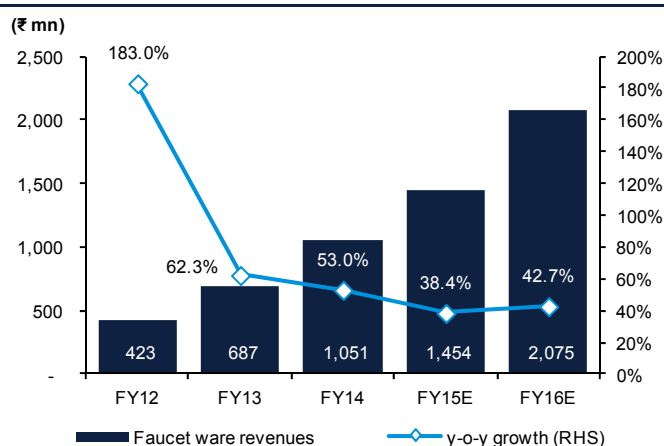
To support growth in the faucet ware segment, Cera is in the process of increasing its faucet manufacturing capacity from 2,500 pieces/day to 7,500-10,000 pieces/day through a brownfield expansion; the estimated capex is ₹550-600 mn. The new facility is expected to commence operations in the beginning of FY16. This expansion should be sufficient to support faucet ware growth in the future.

Cera used to completely outsource its faucet requirement prior to FY11, when it installed its own manufacturing capacity. Post that, the share of outsourcing has declined steadily – in FY14 outsourcing accounted for ~50% of total revenues. With expansion in the manufacturing capacity, the share of outsourcing is expected to decline further.

Cera expected to grow faster than the industry owing to improving brand awareness and customer loyalty

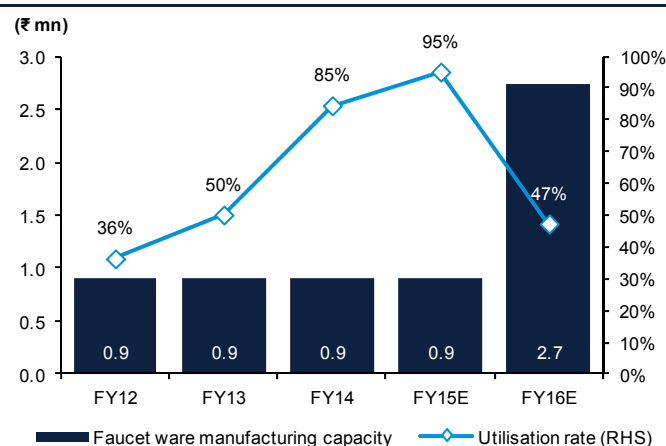
Expanding the faucet ware manufacturing capacity to 7,500 pieces/day from 2,500 pieces

Figure 9: The faucet ware segment is expected to register healthy growth



Source: Company, CRISIL Research

Figure 10: Expansion in manufacturing capacity to lower dependence on outsourced products



Source: Company, CRISIL Research

Allied and wellness products – lack of a premium brand creates hurdles

In the wellness (Jacuzzi, shower panel and bath tubs) and the allied sanitary ware space (seat covers, PVS cisterns and others), Cera imports products from China and Turkey and sells them in the domestic market. This helps the company to improve its revenue mix and premiumise its product portfolio. These products have registered healthy growth over the past few years.

Cera operates in this highly competitive segment with the same CERA brand, which is present in the mass and mid-market segments. There are many foreign players, while the domestic players (HSIL and Roca) compete with a different brand. Lack of a premium brand impacts Cera's positioning among the highly brand conscious customers. As per the management, the company is planning to launch a second brand in the future, which should improve its positioning in this segment.

Ceramic tiles – large addressable market but incremental market share gain may be challenging

In the latter half of FY13, Cera started trading in ceramic tiles (~2% of overall revenues). In FY14, the segment witnessed a five-fold growth and increased its share in overall revenues to 8%. Currently, the company is only focusing on trading of ceramic tiles (it outsources the product from Morbi-based tile manufacturers) and has no imminent plans of installing any manufacturing capacity until it reaches a certain scale of operations. Currently, ~2,000 dealers sell Cera's ceramic tiles.

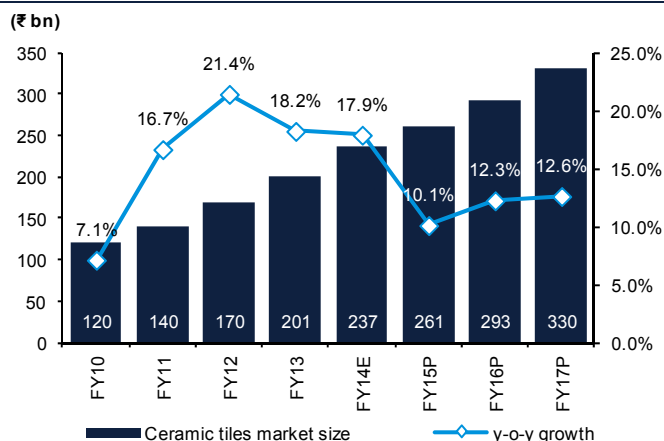
Cera's foray into the ceramic tiles segment is a positive as ceramic tiles are by far the largest addressable market in the building products segment. CRISIL Research estimates the ceramic tile market to be ~₹240 bn in size as of FY14, and expected to grow at a CAGR of 12% to ₹330 bn by FY17.

Cera uses the same brand for the mass and premium segments, which impacts its competitive positioning in the premium segment

The ceramic tile industry is fragmented with a large number of players, which is likely to be a challenge for Cera

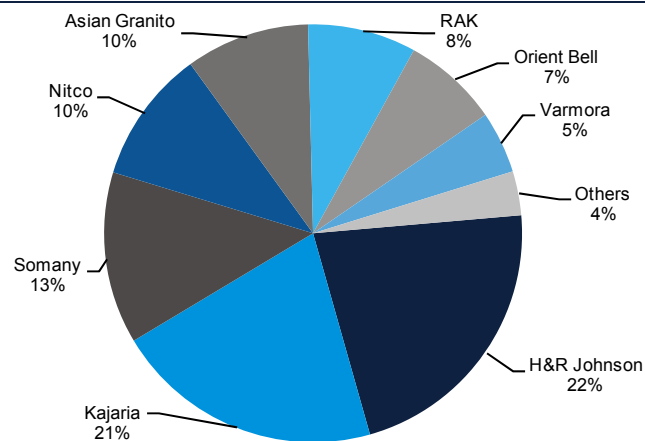
Although Cera's entry into the tile segment has been largely successful in the initial stages, we opine that gaining incremental market share may be challenging owing to 1) high competitive intensity in the fragmented ceramic tiles industry, 2) limited product range and 3) lack of brand awareness in the ceramic tile industry.

Figure 11: Ceramic tiles have a large addressable market



Source: CRISIL Research

Figure 12: High competition may limit market share gain



Source: Industry, CRISIL Research

Operating margin to expand from FY14 levels, but to remain below FY13 levels; return ratios to improve

In FY14, Cera's EBITDA margin declined by 152 bps y-o-y to 14.7% from 16.2% in FY13 owing to depreciating currency (the company imported ~19% of its overall sales in FY14) and higher raw material cost. Other expenses also increased owing to increasing marketing spend. In a muted demand environment, the company was unable to pass on the increase in material costs to consumers completely. We expect margin to expand from FY14 levels owing to lower power and fuel costs due to installation of wind power turbine and solar panels, and a stable currency.

However, owing to increased contribution from low-margin products such as faucets and tiles, EBITDA margin is expected to stay below the FY12-13 levels of 16-17%. Faucets and tiles currently make EBITDA margin of 12% and 4-5%, respectively, compared with 18-19% margins in the sanitary ware segment. However, with economies of scale in these businesses, particularly faucets, these products' margins are expected to improve.

Cera's return ratios are expected to increase going forward, driven by expanding operating margin – we expect RoCE to improve to 34.6% in FY16 from 33.3% in FY14. By focusing on the outsourcing model, which reduces capital requirement, the company has been able to maintain a healthy RoCE profile in the past. However, the share of in-house production is expected to increase for both sanitary ware and faucet ware segments in the long run, resulting in moderation in RoCE.

With growing contribution from the low-margin faucets and tiles, Cera's operating margin is expected to remain below the peak of 16-17%

Natural gas prices are expected to rise; Cera covered under long-term contract until Q4FY16

Cera uses natural gas for manufacturing sanitary ware products. To ensure adequate supply of gas, the company has entered into a long-term contract with GAIL (India) Ltd, where it receives gas from an isolated well under the Administered Pricing Mechanism (APM). Currently, the gas procured from GAIL accounts for ~70% of the total gas requirement, while the rest is procured from Sabarmati Gas Ltd (SGL) at market price. The price of natural gas is expected to increase in H2FY15, on the basis of the recommendation made by the Rangarajan Committee, by 50% to \$6-6.5 per mmBtu from \$4.2 at present. Though the committee had recommended a hike of 100%, leading to gas price of \$8.4 per mmBtu, we expect the actual hike to be lower. We believe Cera is covered under the long-term contract which expires in December 2015 and, hence, higher gas prices are not expected to impact the company in the next couple of years. Post FY16, the natural gas prices are expected to be higher for the company. In case Cera is unable to pass on the gas price hike to the consumers, it may impact its operating margin.

Competition likely to increase in the future

In all its product segments, Cera faces stiff competition from domestic and international players. In the recent past, a number of international brands with superior product design capabilities (such as Duravit, Grohe, Kohler, Roca and Toto) have entered the lucrative Indian building products market, with many of them setting up manufacturing units in India. The competitive scenario in key product segments is as follows:

Sanitary ware – Competition is particularly high in the premium segment, where the foreign players cater to brand conscious customers with higher spending power. In the mass and mid-market segments, domestic players – Cera, HSIL and Roca (through Parryware) – dominate. Although competition is lower in the mass market, which is the largest market for Cera, high competition in the premium market is likely to create hurdles for Cera.

Faucet ware – The faucet ware market is dominated by Jaquar, which holds ~40% of the overall market, and has a strong position in premium and mid segments. The mass market, where Cera markets most of its products, is fragmented with a number of domestic players including Cera, HSIL and Roca. Hence, competition is high in this segment.

Tiles – As mentioned above, the ceramic tile industry is also highly fragmented and competitive in nature and may impede incremental market share gain for Cera.

In FY14, leading ceramic tiles manufacturers Somany and Kajaria announced plans to ramp up their sanitary ware and faucet ware businesses, respectively. Somany, which previously traded in sanitary ware products, entered a JV with a Morbi-based manufacturer to boost its sanitary ware business. Kajaria announced its entry to faucet ware segment by putting up a faucet plant with a manufacturing capacity of 1.5 mn pieces/annum. This is expected to heat up competition in the already crowded mass market segment of the faucet ware segment.

Although competitive intensity is high in most of the segments where Cera is present, we believe it has strengths which root it well to deal with competition.

Entry of foreign players has resulted in high competition, particularly in the premium segment

With tile manufacturers entering the sanitary and faucet ware businesses, competition is likely to increase



Key Risks

Sustained slowdown in the real estate industry

The prospects of sanitary ware and faucet ware segments are dependent on the macroeconomy in general and the real estate industry in particular. The impact of this was evident during the economic slowdown of FY09-10 when the ceramic tiles and sanitary ware segments recorded 5% annual growth, which was lower than the average of the previous five-year period. The supply of real estate projects in metros and tier-I cities across India declined ~25% y-o-y in FY14 but was steady in tier-II and tier-III cities. Although the impact of the slowdown in the real estate industry was marginal on the sanitary ware and faucet ware segments, sustained slowdown in the real estate industry could hamper future prospects.

Inability to pass on increase in power, fuel and material costs

Cera's sanitary ware business is power intensive in nature. Power and fuel costs have increased significantly over the past few years but Cera has been able to manage its impact by taking calibrated price hikes, via captive power generation through in-house wind farms, and by entering into long-term contracts with GAIL for procuring natural gas. Gas prices are expected to increase in the latter half of FY15, which may have an impact on Cera's power and fuel costs once the long-term contract ends. Cera's profitability could be adversely impacted if it is unable to pass on the increase in power and fuel costs. For the faucet ware segment, brass is the primary raw material and any potential volatility in brass prices can impact Cera's operating margin.

Sustained slowdown in the real estate industry may impact the prospects of sanitary ware and faucet ware players

Financial Outlook

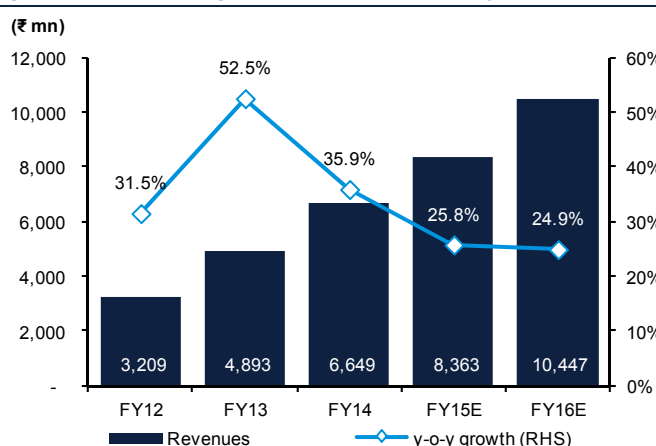
Revenues to log two-year CAGR of 25%

Cera's revenues are expected to grow at a CAGR of 25.3% over FY14-16 to ₹10.4 bn by FY16 from ₹6.4 bn in FY14. Sturdy growth in faucet ware and allied products, wellness and tile segments are expected to lead this growth, while the sanitary ware segment is expected to remain steady.

Growth in sanitary ware revenues is expected to moderate owing to rising penetration levels and a higher base effect. We expect the segment to grow at a CAGR of 20.4% over FY14-16. However, the faucet ware segment is expected to grow at a much faster rate over the same period at a CAGR of 40.5%, albeit from a smaller base. The expanded faucet ware capacity is expected to be operational in Q4FY15, and is expected to support the company's growth plans. As a result, the contribution of the sanitary ware segment to overall revenues is also expected to decline.

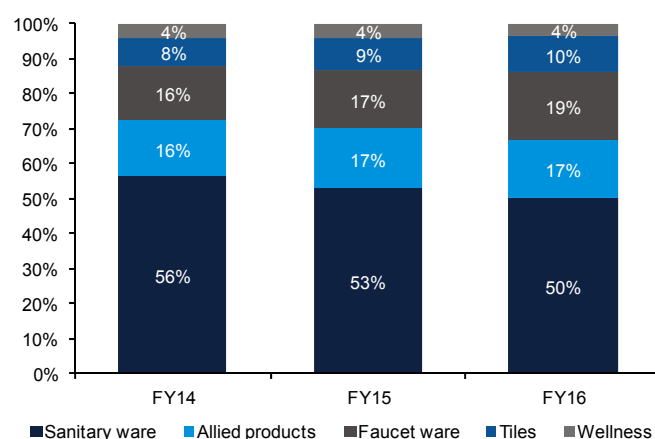
Faucet ware, allied products, wellness products and tiles to drive top-line growth

Figure 13: Revenue growth to remain healthy in FY15-16



Source: Company, CRISIL Research

Figure 14: Contribution of sanitary ware likely to decline



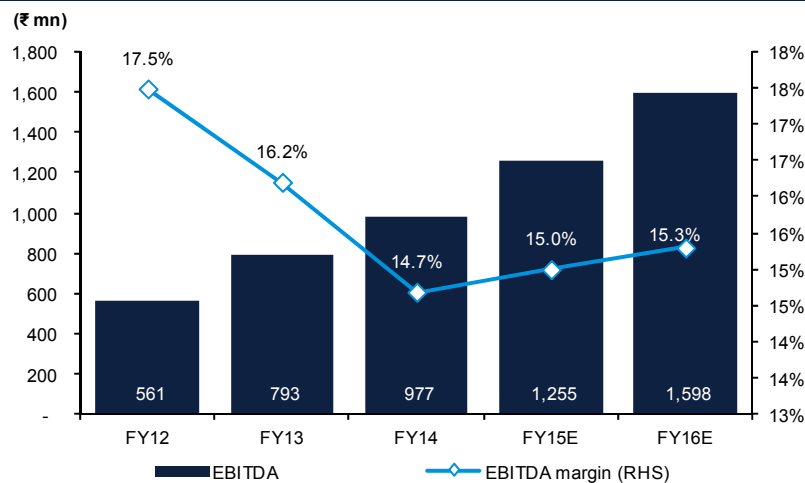
Source: Company, CRISIL Research

EBITDA margin expected to improve from FY14 levels

We expect operating margin to improve from FY14 levels but remain below historic levels. EBITDA margin is estimated to improve to 15% in FY15 and 15.3% in FY16 from 14.7% in FY14 owing to 1) a stable currency compared to most of FY14, 2) lower power and fuel costs as a result of wind turbine and solar panel installation, 3) increase in EBITDA contribution from the faucet ware segment which became operationally profitable in Q3FY14, and 4) the company's focus on premium products, which fetch higher margins. However, we do not expect EBITDA margin to go back to the historic levels of 16-17% as growing contribution from the low-margin products - faucets and tiles - is likely to arrest further margin expansion.

EBITDA margin to improve from FY14 levels, although likely to remain below the FY13 level

Figure 15: EBITDA margin is expected to improve in the near term



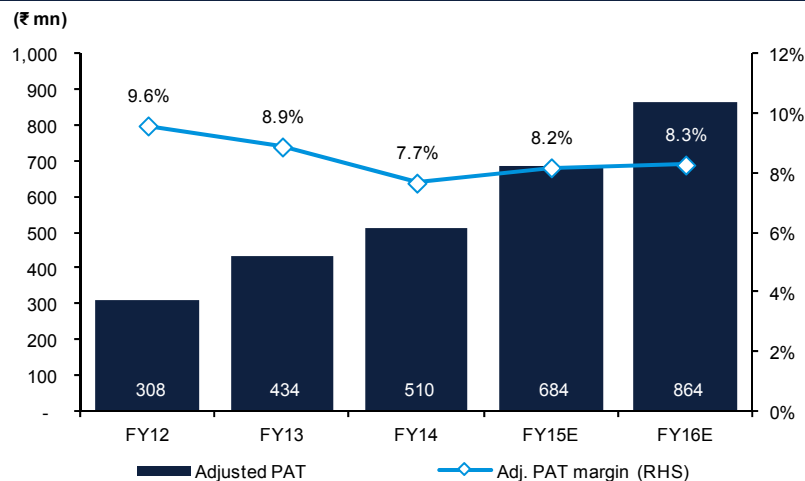
Source: Company, CRISIL Research

Adjusted PAT expected to grow at 30% CAGR over FY14-16

Adjusted PAT is expected to grow to ₹864 mn in FY16 from ₹510 mn in FY14, implying a two-year CAGR of 30.2%; growth is mainly due to higher EBITDA. The company is expected to raise new debt to fund the planned expansion in faucet ware and sanitary ware capacities, and as a result, Cera's interest cost and depreciation expenses are expected to go up.

PAT to register healthy growth driven by increase in revenues and expansion in EBITDA margin

Figure 16: Adjusted PAT expected to register strong growth

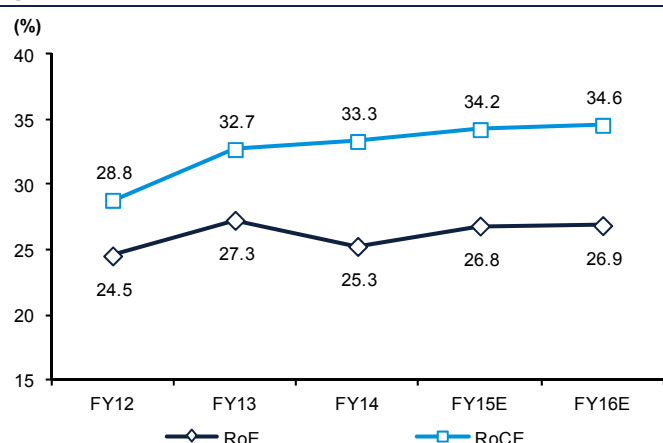


Source: Company, CRISIL Research

Return ratios to improve in FY15

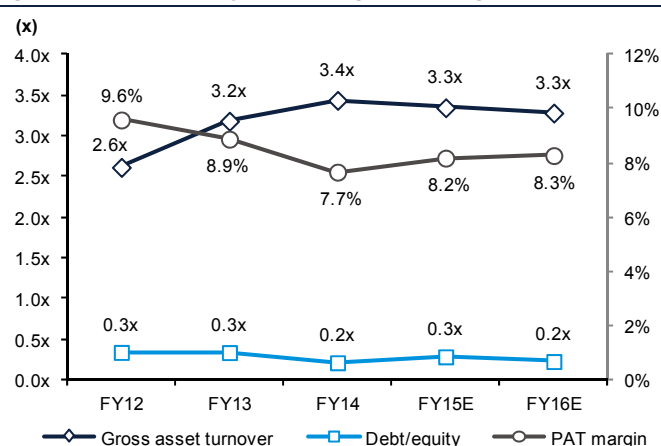
RoE is expected to improve to 26.8% in FY15 and 26.9% in FY16 from 25.3% in FY14, while RoCE is estimated to grow to 34.2% and 34.6% during the same period. The improvement in return ratios is likely to be driven by higher margins.

Figure 17: Return ratios are expected to improve...



Source: Company, CRISIL Research

Figure 18: ... driven by improving PAT margin



Source: Company, CRISIL Research

Earnings estimates revised upwards

Particulars	Unit	FY15E			FY16E		
		Old	New	% change	Old	New	% change
Revenues	(₹ mn)	8,125	8,363	2.9%	9,895	10,447	5.6%
EBITDA	(₹ mn)	1,194	1,255	5.1%	1,514	1,598	5.6%
EBITDA margin	%	14.7%	15.0%	31bps	15.3%	15.3%	0bps
PAT	(₹ mn)	675	684	1.4%	833	864	3.8%
PAT margin	%	8.3%	8.2%	-13bps	8.4%	8.3%	-14bps
EPS	₹	53.4	54.1	1.4%	65.8	68.3	3.8%

Source: CRISIL Research estimates

Reasons for changes in estimates

Line item	FY15	FY16
Revenues	Raised due to higher-than-expected growth in faucet ware and allied products segments in Q1FY15	
EBITDA margin	Raised based on the company's efforts to achieve cost efficiency, and lower power and fuel costs	No change
PAT margin	Lowered - post discussion with the management, we have changed our capex assumptions for FY15 and FY16 resulting in higher depreciation expense. Cera is expected to incur capex of ~₹1,250 mn over the next couple of years.	

Source: CRISIL Research estimates

Expanding margins to aid RoE and RoCE



Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors such as industry and business prospects and financial performance.

Experienced promoter supported by strong top management

Cera is promoted by Mr Vikram Somany, Chairman and Managing Director, who has over three decades of experience in the sanitary ware business. Over the past three decades, Mr Somany has successfully guided Cera to be one of the leading players in the Indian sanitary ware industry. He is supported by a professional top management team headed by Mr Subhash Chandra Kothari, CEO, who also has more than 30 years of experience in the sanitary ware industry. Although the top management is responsible for taking the day-to-day operational and strategic decisions, we believe it relies heavily on the promoter for key strategic decisions.

Increased confidence in top management's execution capability

Our confidence in the execution capability of the management team has increased over the past one year primarily because under their guidance the company posted steady top-line growth in FY14 despite a challenging business environment. Moreover, the management was able to turn the faucet ware business profitable during the year. The company entered the fragmented ceramic tiles space in FY14 and the top management's ability to gain a significant market share in this space over the next few years is a monitorable.

Step towards long-term succession planning is a key positive

In FY14, the company inducted Mrs Deepshikha Khaitan (Mr Vikram Somany's daughter) to the board of directors, as an additional director. We view this as a key step taken towards ensuring long-term succession in the company. In our opinion, with a professional management team driving the operational aspects of the business, Mrs Khaitan would be able to get well versed with the nuances of the business over the next few years and take over the responsibility of making strategic decisions from Mr Somany after his retirement.

Our confidence in the execution capability has increased over the past one year

The appointment of Mrs Khaitan is a step towards ensuring long-term succession

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Overall, the corporate governance practices at Cera meet the requisite standards, and are supported by reasonably good board processes and practices.

Board composition meets requisite criteria; board processes are in place

Cera's board comprises 10 directors, of whom five are independent, which meets the Clause 49 of SEBI's listing agreement. The company has all the necessary committees – audit, remuneration and investor grievance – in place. Board meetings are held in regular intervals and agenda papers are also circulated in advance. Overall, we perceive Cera's board processes and systems to be satisfactory.

Cera's corporate governance practices are reasonably good

Good quality of earnings; transparent systems and processes

The key strengths of the corporate governance process are as follows:

- **Good quality of earnings:** In our opinion, Cera's quality of earnings is strong, which is reflected in the following:
 - The accounting policies adopted by the company are appropriate and conservative; there have been no major changes in accounting policies in the recent past.
 - Debtor and inventory days have been stable over the past few years; and so also sales growth.
 - Cera has consistently generated operating cash flow over the past few years, which has been in line with growth in organic revenues. The company's revenue growth has been significantly higher than growth in gross block.
- **Transparent systems and processes:** Based on our interaction with the management, we believe Cera's systems and processes are fairly transparent in nature. Moreover, we did not find any material controversy regarding the company or the management.
- **Treatment of minority shareholders:** Despite consistent capacity addition, Cera has maintained a steady dividend payout ratio. Comparing the dividend payout with PAT growth and increase in gearing over the past few years, we opine that the dividend is appropriate and, hence, beneficial to the minority shareholders.
- **Limited related party transaction:** Although Cera enters into certain related party transactions, the amount is small compared with the net worth of the company.

Scope to improve disclosure standards

Although the company's disclosure levels meet the statutory requirements, we believe that the company's disclosure standards can be improved. For example, it does not disclose product/segment-wise revenues and capital employer data.

Valuation

Grade: 3/5

We continue to value Cera by the DCF method. We have increased our revenue and earnings estimates for the explicit forecast period as we expect a gradual recovery in the economy. Accordingly, we have revised our fair value to ₹1,406. This fair value implies P/E multiples of 26.0x and 20.6x FY15E and FY16E EPS, respectively. The stock is currently trading at ₹1,543, which implies P/E multiples of 28.5x FY15E EPS and 22.6x FY16E EPS. At the current market price, the valuation grade is **3/5**.

Key assumptions

We have considered the discounted value of the firm's estimated free cash flows over FY15-25 to sufficiently capture the growth of the company. In the terminal year, we have assumed a growth rate of 5% and EBITDA margin of 14.3%. We have assumed cost of equity of 14.5%.

WACC assumptions

	Explicit period	Terminal value
Cost of equity	14.5%	14.5%
Cost of debt (post tax)	8.0%	8.0%
WACC	13.1%	13.1%
Terminal growth rate		5.0%

Sensitivity of fair value to terminal growth and WACC

		Terminal growth				
		3.0%	4.0%	5.0%	6.0%	7.0%
WACC	11.1%	1,295	1,375	1,476	1,605	1,776
	12.1%	1,259	1,339	1,440	1,569	1,740
	13.1%	1,226	1,306	1,406	1,535	1,707
	14.1%	1,194	1,275	1,375	1,504	1,676
	15.1%	1,166	1,246	1,347	1,476	1,647

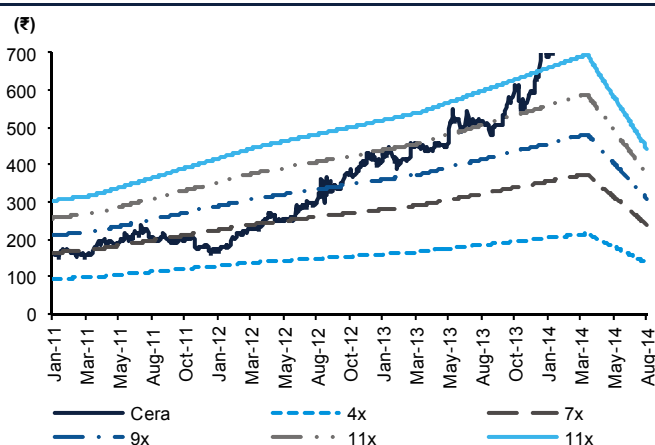
Source: Company, CRISIL Research

Sensitivity of fair value to terminal EBITDA and WACC

		EBITDA margin %				
		12.3%	13.3%	14.3%	15.3%	16.3%
WACC	11.1%	1,658	1,782	1,905	2,029	2,152
	12.1%	1,420	1,518	1,616	1,714	1,812
	13.1%	1,247	1,327	1,406	1,486	1,566
	14.1%	1,118	1,184	1,250	1,316	1,382
	15.1%	1,019	1,074	1,130	1,185	1,240

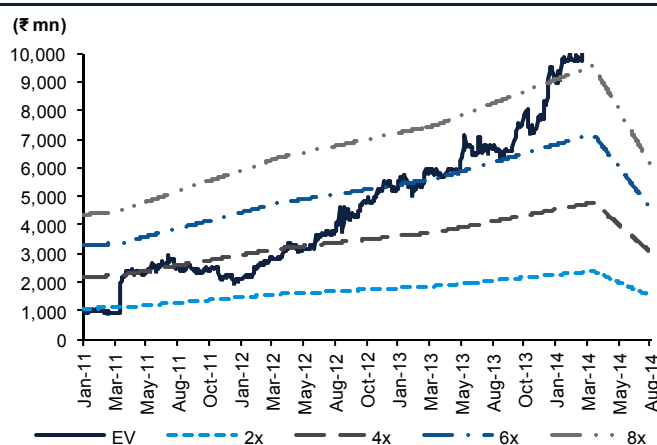
Source: Company, CRISIL Research

One-year forward P/E band



Source: NSE, CRISIL Research

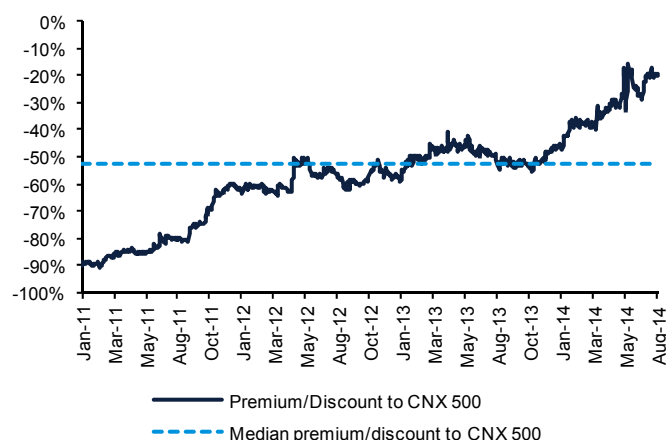
One-year forward EV/EBITDA band



Source: NSE, CRISIL Research

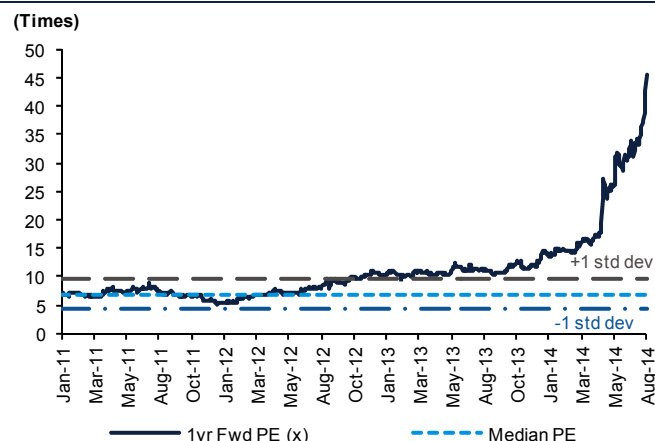
Fair value increased to ₹1,406 on account of upward revision of revenue and earnings estimates

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on Cera Sanitaryware Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
07-Aug-13	Initiating coverage	4/5	₹615	4/5	₹511
11-Nov-13	Q2FY14 result update	4/5	₹615	3/5	₹563
28-Feb-14	Q3FY14 result update	4/5	₹794	3/5	₹756
15-May-14	Q4FY14 result update	4/5	₹903	2/5	₹1,139
31-July-14	Q1FY15 result update	4/5	₹1,075	2/5	₹1,317
13-Aug-14	Detailed report	4/5	₹1,406	3/5	₹1,543

Table 3: valuation comparison

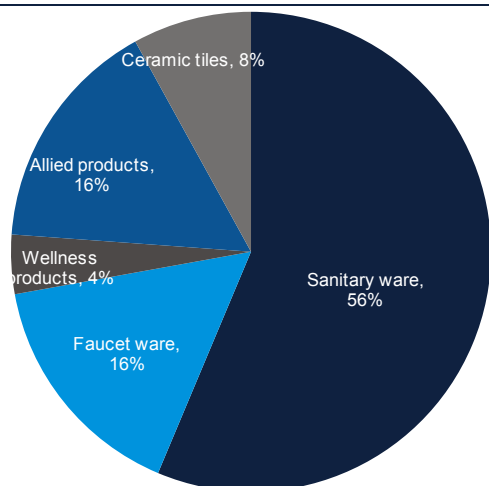
Company	M.Cap (₹ mn)	P/E (x)			EV/EBITDA (x)			P/BV (x)			ROE (%)		
		FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15E
Cera Sanitaryware	19,531	38.3	28.5	22.6	20.1	15.9	12.4	8.7	6.8	5.5	25.3	26.8	26.9
Other Sanitary ware and ceramics companies													
HSIL	17,156	25.5	22.0	13.4	6.9	8.7	7.0	0.8	1.6	1.4	3.3	7.9	12.1
Somany Ceramics	9,589	31.7	23.5	17.0	12.8	10.7	8.8	4.2	3.7	3.2	15.9	16.8	20.1
Kajaria Ceramics	44,995	20.9	28.9	22.1	10.3	13.5	10.7	5.0	6.6	5.3	27.9	25.4	26.1
Mean		25.9	25.2	17.9	10.0	11.2	9.0	3.3	4.1	3.4	15.7	16.7	19.4
Median		25.5	23.2	16.8	10.3	10.6	8.7	4.2	3.7	3.1	15.9	16.8	20.1
Other consumption-based companies in CRISIL Research's coverage													
TTK Prestige	43,869	41.7	24.8	25.5	27.2	21.6	16.3	7.5	6.0	5.2	21.4	26.9	21.9
Gandhimathi Appliances	5,145	22.9	18.4	14.9	12.9	9.5	7.7	2.3	2.1	1.9	10.6	12.0	13.6
Kewal Kiran	20,837	31.1	27.7	23.7	20.4	17.2	14.6	7.2	6.3	5.6	24.6	24.3	25.0
Average		32.7	24.2	21.9	20.7	16.5	13.2	5.8	4.9	4.3	18.9	21.1	20.1
Median		31.6	25.8	24.0	20.7	17.5	14.8	7.3	6.3	5.4	21.4	24.3	21.9

Source: Industry, CRISIL Research

Company Overview

Incorporated in 1980, Cera has emerged as the third largest player in the sanitary ware industry in India. The company holds ~23% market share in the organised segment. The manufacturing plants for sanitary ware and faucet ware are located in Kadi (Gujarat). The company has installed capacity to produce 2.7 mn pieces/annum of sanitary ware and 2,500 pieces/ day of faucet ware. The company also imports premium sanitary ware products from China and markets under the CERA brand. The product range includes vitreous China sanitary ware, faucet ware (chrome plated fittings and taps), wellness products such as shower panels, bathroom cubicles, bath tubs, jacuzzi, bath fittings, allied products (PVC cisterns and seat covers), kitchen sinks and bathroom mirrors. As of May 2014, Cera has 1,400 distributors / dealers, 14,000 retailers and 21 major stock points across India.

Figure 19: Segmental revenue break-down for FY14



Source: Company, CRISIL Research

Milestones

1979-80	Incorporated as Madhusudan Ceramics, a unit of Madhusudan Industries Ltd, with presence in the oil and ceramics segments. Installed capacity at ceramics division was 0.3 mn pieces/annum
1995-96	Established its outsourcing division with initial turnover of ₹13.7 mn and manufacturing capacity increased to 1.25 mn pieces/annum
2001-02	Demerger of Madhusudan Industries and transfer of ceramics division to form Cera Sanitaryware Ltd
2005-06	First to introduce concept of bath studios in Ahmedabad
2006-07	Undertook expansion and increased the capacity to 1.38 mn pieces p.a. in sanitary ware
2007-08	Installed captive power plant (gas-based) in Kadi, wind turbine generator and increased capacity to 2 mn pieces p.a. in sanitary ware
2010-11	Commissioned manufacturing plant for faucet ware with initial capacity of 2,500 pieces per day and scalable to 10,000 pieces per day
2011-12	In the sanitary ware segment, CERA was voted product of the year for the second consecutive time
2012-13	Expanded the capacity of sanitary ware plant from 2.0 mn unit to 2.7 mn units
2013-14	Ventured into vitrified and floor tiles segment; undertook capacity expansion plan for the faucet ware segment

Source: Company, CRISIL Research

Annexure: Financials

Income statement

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Operating income	3,209	4,893	6,649	8,363	10,447
EBITDA	561	793	977	1,255	1,598
EBITDA margin	17.5%	16.2%	14.7%	15.0%	15.3%
Depreciation	77	94	122	158	202
EBIT	484	699	854	1,096	1,397
Interest	40	71	64	81	107
Operating PBT	444	628	790	1,015	1,290
Other income	28	23	25	21	20
Exceptional inc/(exp)	13	28	9	-	-
PBT	485	678	824	1,037	1,310
Tax provision	165	216	305	352	445
Minority interest	-	-	-	-	-
PAT (Reported)	320	462	519	684	864
Less: Exceptionals	13	28	9	-	-
Adjusted PAT	308	434	510	684	864

Ratios

	FY12	FY13	FY14	FY15E	FY16E
Growth					
Operating income (%)	31.5	52.5	35.9	25.8	24.9
EBITDA (%)	14.7	41.3	23.2	28.4	27.4
Adj PAT (%)	22.0	41.2	17.3	34.2	26.3
Adj EPS (%)	22.0	41.2	17.3	34.2	26.3

Profitability

EBITDA margin (%)	17.5	16.2	14.7	15.0	15.3
Adj PAT Margin (%)	9.6	8.9	7.7	8.2	8.3
RoE (%)	24.5	27.3	25.3	26.8	26.9
RoCE (%)	28.8	32.7	33.3	34.2	34.6
RoIC (%)	28.0	29.7	27.1	27.4	27.3

Valuations

Price-earnings (x)	63.5	45.0	38.3	28.5	22.6
Price-book (x)	14.0	10.9	8.7	6.8	5.5
EV/EBITDA (x)	35.1	25.0	20.1	15.9	12.4
EV/Sales (x)	6.2	4.1	3.0	2.4	1.9
Dividend payout ratio (%)	11.9	10.9	12.2	12.2	14.7
Dividend yield (%)	0.2	0.3	0.3	0.4	0.7

B/S ratios

Inventory days	105	71	58	58	60
Creditors days	93	80	75	75	75
Debtor days	50	60	56	59	59
Working capital days	56	55	46	43	46
Gross asset turnover (x)	2.6	3.2	3.4	3.3	3.3
Net asset turnover (x)	3.8	4.5	4.8	4.6	4.5
Sales/operating assets (x)	3.4	4.1	4.5	4.3	4.4
Current ratio (x)	2.0	1.9	1.8	1.8	1.8
Debt-equity (x)	0.3	0.3	0.2	0.3	0.2
Net debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Interest coverage					
EBITDA/Interest	14.0	11.2	15.2	15.5	14.9
EBIT/Interest	12.1	9.8	13.3	13.5	13.0

Per share

	FY12	FY13	FY14	FY15E	FY16E
Adj EPS (₹)	24.3	34.3	40.3	54.1	68.3
CEPS	30.4	41.8	50.0	66.6	84.2
Book value	110.0	141.8	177.0	226.0	282.5
Dividend (₹)	3.0	4.0	5.0	6.6	10.1
Actual o/s shares (mn)	12.7	12.7	12.7	12.7	12.7

Balance Sheet

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Liabilities					
Equity share capital	63	63	63	63	63
Reserves	1,328	1,732	2,176	2,797	3,511
Minorities	-	-	-	-	-
Net worth	1,391	1,795	2,240	2,860	3,575
Convertible debt	-	-	-	-	-
Other debt	476	610	483	824	824
Total debt	476	610	483	824	824
Deferred tax liability (net)	136	162	202	202	202
Total liabilities	2,004	2,567	2,924	3,886	4,600
Assets					
Net fixed assets	903	1,251	1,517	2,125	2,527
Capital WIP	132	82	122	150	-
Total fixed assets	1,035	1,333	1,639	2,275	2,527
Investments	13	67	69	69	69
Current assets					
Inventory	918	940	1,046	1,329	1,717
Sundry debtors	459	836	1,066	1,394	1,741
Loans and advances	210	270	352	443	553
Cash & bank balance	300	336	238	287	401
Marketable securities	11	14	122	122	122
Total current assets	1,898	2,396	2,824	3,574	4,534
Total current liabilities	942	1,229	1,608	2,032	2,530
Net current assets	956	1,167	1,216	1,542	2,004
Intangibles/Misc. expenditure	-	-	-	-	-
Total assets	2,004	2,567	2,924	3,886	4,600

Cash flow

(₹ mn)	FY12	FY13	FY14	FY15E	FY16E
Pre-tax profit	472	651	815	1,037	1,310
Total tax paid	(167)	(190)	(265)	(352)	(445)
Depreciation	77	94	122	158	202
Working capital changes	(299)	(173)	(39)	(277)	(348)
Net cash from operations	83	382	633	565	718
Cash from investments					
Capital expenditure	(267)	(392)	(429)	(794)	(454)
Investments and others	54	(57)	(109)	-	-
Net cash from investments	(214)	(449)	(538)	(794)	(454)
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	97	134	(128)	341	-
Dividend (incl. tax)	(44)	(59)	(74)	(98)	(150)
Others (incl extraordinary)	13	28	9	34	-
Net cash from financing	66	103	(193)	277	(150)
Change in cash position	(65)	36	(98)	49	114
Closing cash	300	336	238	287	401

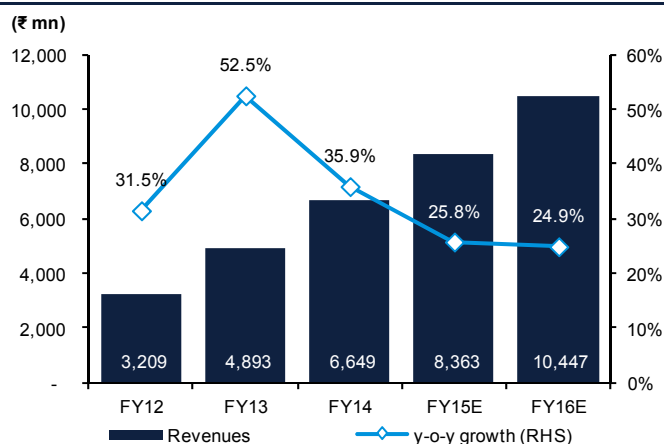
Quarterly financials

(₹ mn)	Q1FY14	Q2FY14	Q3FY14	Q4FY14	Q1FY15
Net Sales	1,266	1,588	1,601	2,182	1,623
Change (q-o-q)	-20%	25%	1%	36%	-26%
EBITDA	199	193	206	352	241
Change (q-o-q)	-4%	-3%	7%	71%	-31%
EBITDA margin	15.7%	12.1%	12.9%	16.1%	14.9%
PAT	112	106	108	193	136
Adj PAT	112	106	108	193	136
Change (q-o-q)	-20%	-5%	1%	80%	80%
Adj PAT margin	8.8%	6.7%	6.7%	8.9%	8.4%
Adj EPS	8.8	8.4	8.5	15.3	10.8

Source: CRISIL Research

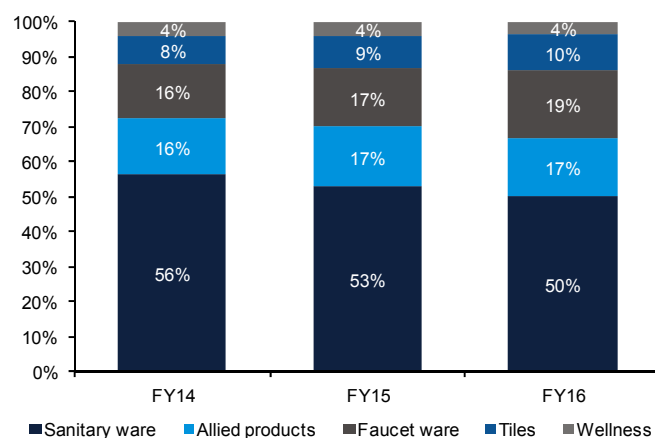
Focus Charts

Revenues to grow at 25% CAGR over FY14-16



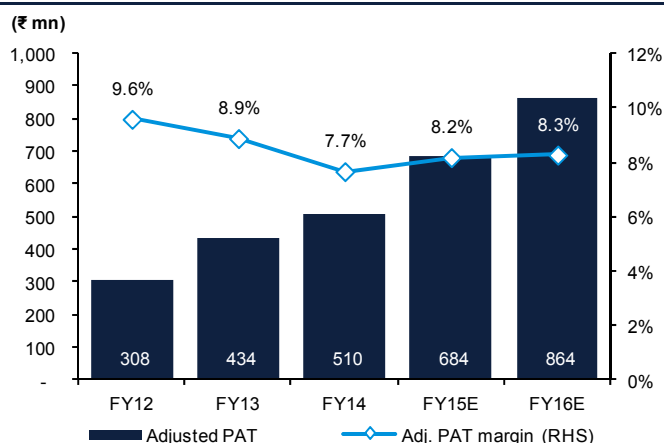
Source: Company, CRISIL Research

Revenue contribution of sanitary ware to reduce gradually



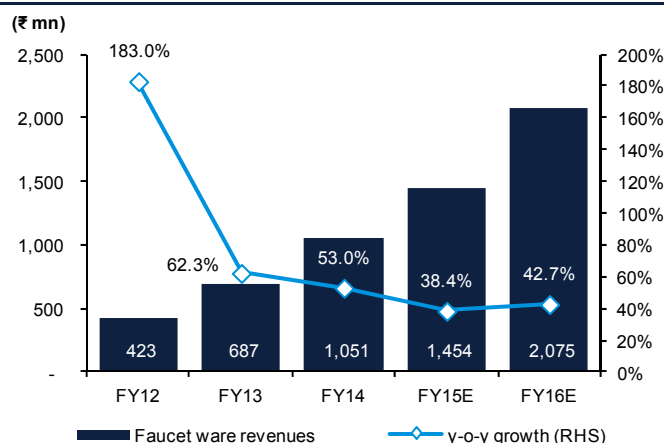
Source: Company, CRISIL Research

Sanitary ware segment to grow at two-year CAGR of 20%



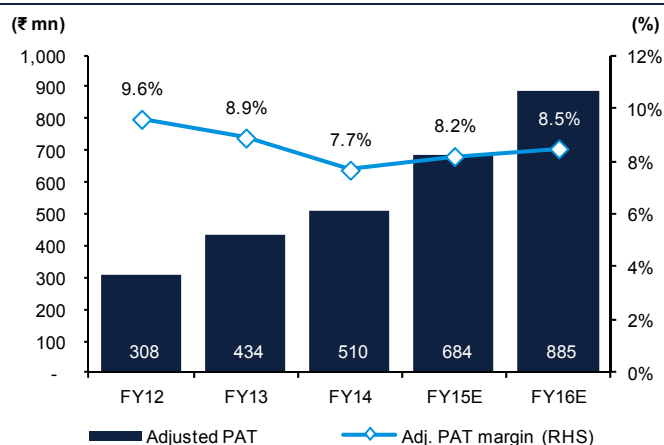
Source: Company, CRISIL Research

Faucet ware to register faster growth rate



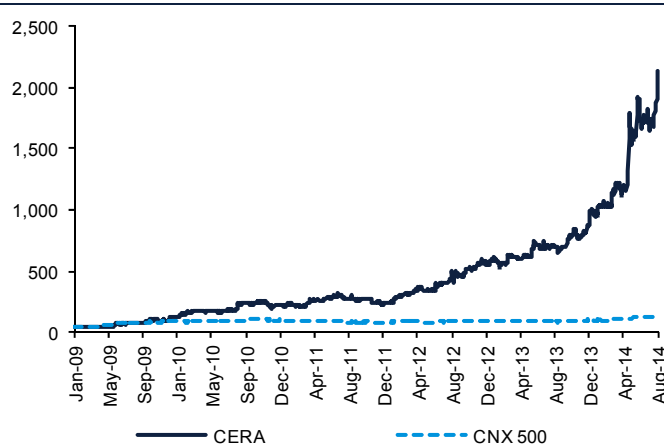
Source: Company, CRISIL Research

Adjusted PAT to grow at a two-year CAGR of 30%



Source: Company, CRISIL Research

Stock performance vs CNX 500



-Indexed to 100

Source: Company, CRISIL Research

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